MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 2, 2016/2017

BCS 4614 – GOODS AND SERVICES TAX

(All sections / Groups)

1 MARCH 2017
2.30 p.m. – 5.30 p.m.
(3 Hours)

INSTRUCTIONS TO STUDENTS

1. This Question paper consists of 8 (eight) pages (including the cover page) with 5 Questions only.

2. Attempt **ALL** questions. The distribution of the marks for each question is given.

3. Please print all your answers in the Answer Booklet provided.

4. Take note of the following matters in respect of the question paper:

   (i) GST refers to goods and services tax under the Goods and Services Tax Act 2014 (as amended).
   (ii) RMC refers to the Royal Malaysian Customs.
   (iii) All reference to sections is to the Goods and Services Tax Act 2014 (as amended) unless otherwise specified.

QUESTION 1 (20 marks)

(a) Explain briefly the basic principles of the taxation under the Goods and Services Tax Act 2014 (as amended).

(4 marks)

(b) With reference to the Goods and Services Tax Act 2014 (as amended), explain briefly what do you understand by the following type of supply:

(i) Zero rated supply;
(ii) Exempt supply; and
(iii) Taxable supply

(6 marks)

(c) Explain what is an 'Out of Scope' supply in the context of the Goods and Services Tax Act 2014 (as amended) and give five (5) examples of such supplies, explaining briefly its implication for GST purposes.

(5 marks)

(d) Miss Pavani is the owner of Pavani Stores and sells saris, textiles and ladies accessories. She is a GST registered person under the Goods and Services Tax Act 2014 (as amended), on a quarterly taxable period. Her sister was married on 10 January 2017 and Pavani presented her with a set of ten silk saris as a wedding present. The saris were bought in December 2016 as part of her trading stock for RM31,800 (inclusive of GST). The open market value of the sari set at the time of the wedding was RM35,000.

Required:

(i) In the context of the Goods and Services Tax Act 2014 (as amended) explain whether a supply has been made by Miss Pavani?

(ii) If yes, determine the GST liability, the period when the said liability would arise and when the amount of GST (if any) should be accounted for to the RMC?

(5 marks)

[Total marks: 20]

QUESTION 2 (20 marks)

(a) In the context of section 3 and section 9 of the Goods and Services Tax Act 2014 (as amended) briefly explain the concept of business, giving three (3) examples of activities that are deemed to be the 'carrying on of a business' within the meaning of those sections.

(5 marks)

(b) With reference to Section 11 of the Goods and Services Tax Act 2014 (as amended) how would you determine the basic tax point for the supply of goods, and for the supply of services?

(4 marks)

Continued...

(c) Xcel Electrical Sdn Bhd ('the company') is a GST registered person with a monthly taxable period. The company carries on the business of retailing computer and computer accessories. The company placed an order for thirty desktop computers with Bell Computers Sdn Bhd ('Bell'), a GST registered company (also on a monthly taxable period), on 20 January 2017 and paid a deposit of RM19,080 inclusive of GST on the same day.

Bell issued a tax invoice for RM19,080 (inclusive of GST) on 21 January 2017 for the deposit paid. The following month when stocks arrived from the United States, Bell delivered the thirty desktop computers to the company on 25 February 2017. Bell issued an invoice for RM76,320 (inclusive of GST) on the day of the delivery, and the company settled the amount due on 28 February 2017.

Required:

(i) What is the time of supply for Bell Computers Sdn Bhd?

(2 marks)

(ii) When should Bell Computers account for the output tax to the RMC on the supply made?

(2 marks)

(iii) If Bell Computers Sdn Bhd had delivered the computers on 25 February and issued the full tax invoice for RM95,400 on 10 March 2017 what is the position for GST purposes?

(2 marks)

(d) Magnum Industries Sdn Bhd ('the company') was awarded a contract to extract clay from a piece of land near Kajang. It arranged with another company to supply excavation machines for a period one month, but which could be renewed up to a maximum of twelve months. To formalise the extraction of clay and the machinery supply arrangement, the company engaged Yamuna & Associates, a legal firm to provide legal services. The legal services will be provided over a period of one year commencing from 1 January 2017. The agreed legal fee is RM106,000 inclusive of GST. Both the company and the legal firm are GST registered persons on a monthly taxable period.

Required:

With reference to the Goods and Services Tax Act 2014 (as amended) determine the time of supply of services by the legal firm in the following instances:

(i) Yamuna & Associates issued a tax invoice for the sum of RM106,000 on 1 January 2017 but no payments were received from the client;

(1 mark)

Continued...

(ii) Magnum Industries Sdn Bhd paid an advance of RM21,200 inclusive of GST on 1 January 2017 upon receiving the tax invoice for the sum of RM106,000 inclusive of GST, and made arrangement to settle the balance of the RM84,800 (inclusive of GST) on 31 December 2017 when the contract comes to an end;

(2 marks)

(iii) The legal firm issued the tax invoice for the sum of RM106,000 inclusive of GST on 31 December 2017 upon receiving the full payment from Magnum Industries Sdn Bhd.

(2 marks)

[Total marks:20]

QUESTION 3 (20 marks)

(a) Explain briefly when is a person required to be registered mandatorily in the context of section 20 and the GST (Amount of Taxable Supply) Order 2014.

(4 marks)

(b) A person who registers voluntarily may obtain certain benefits under the Goods and Services Tax Act 2014 (as amended).

Required:

Discuss four matters (4) that could be considered as advantageous before a person decides to register voluntarily for GST purposes.

(4 marks)

(c) Madam Ilham has a grocery store in Cyberjaya whose annual turnover was RM210,000 as at 30 September 2016. She also operates a popular restaurant that has an annual turnover of RM200,000 as at 30 September 2016. On 10 October 2016 she was offered a two years contract to supply groceries to a cafeteria in Putrajaya whose expected value is RM100,000 per annum. She has not decided as yet whether to take up the offer to supply grocery to the cafeteria as she is not sure of GST matters and accordingly, has approached you for advice.

Required:

(i) Explain to Madam Ilham whether she should register as a taxable person for the purposes of the Goods and Services Tax Act 2014 (as amended)?

(2 marks)

(ii) Assuming that she is required to register, when should she register herself for the purposes of the Goods and Services Tax Act 2014 (as amended)?

(2 marks)

Continued...

(iii) Under the Goods and Services Tax Act 2014 (as amended) when would Madam Ilham become a registered taxable person?

(2 marks)

(d) Yusuf Office Supplies Sdn Bhd ('the company') is a Malaysian incorporated company and is mainly engaged in the manufacture and supply of various kind of paper for office use. It holds 60% shares in a delivery company and another 45% in a company that manufactures ink cartridges.

The three companies have substantial intercompany, transactions including the provision of management services. The chief clerk of the company suggested that En Yusuf, the managing director consider group registration of the three companies. En Yusuf has telephoned you for advice.

Required

(i) Advise En Yusuf whether the three companies could register as a group for the purposes of the Goods and Services Tax Act 2014 (as amended)?

(4 marks)

(ii) Explain to En Yusuf the obligation of a group under Goods and Services Tax Act 2014 (as amended) and the benefits that the group could obtain from a group registration.

(2 marks)

[Total marks: 20]

QUESTION 4 (20 marks)

(a) Ravi Management Sdn Bhd ('the company') is a Malaysian GST registered company in business since March 2016. The company wanted to change from the accrual system to the cash system of accounting and applied to the Director General of Customs for approval.

The approval was given with effect from 1 January 2017. The company's debtor and creditor balance as at that date were as follows:

Ledger balance as at 1 January 2017	RM
Creditor balance	120,000.00
Debtor balance	180,000.00

Required

(i) Based on the information provided, make the necessary adjustments to show the GST liability of Ravi Management Sdn Bhd upon the approval for the change of the accounting system to the cash basis assuming there are no other transactions during the relevant taxable period.

(3 marks)

Continued...

(ii) Did the change to the cash basis system yield any immediate benefit to the company?

(1 mark)

(iii) Explain when it is advisable to change from the accrual system to the cash system of accounting for GST purposes?

(1 mark)

(b) With reference to the Goods and Services Act 2015 (as amended), what do you understand by the *'De Minimis Rule'*, and explain the circumstance when it could be applied by a taxable person?

(5 marks)

(c) Lee Sdn Bhd is on a quarterly taxable period and for the period January 2017 – March 2017, it has furnished you the following information as regards the supplies made:

Type of supply	Value of supply (RM)	Input tax incurred (RM)
Standard rated supply	170,690	7,454
Zero rated supply	126,250	1,242
Exempt supply	14,140	24,846
Residual input tax		4,969
Total	311,080	38,511

Required:

Determine whether Lee Sdn Bhd can claim the full input tax credit in respect of its exempt supply for the said taxable period January 2017– March 2017, indicating your computation to arrive at your decision.

(5 marks)

(d) Hannah Enterprise ('the firm') is a GST registered person on a monthly taxable period. The firm acquired a machine for RM492,000 (inclusive of GST) for which the vendor raised a tax invoice on 15 January 2017, and the firm claimed input tax credit in the taxable period January 2017. The firm arranged to make payments in four equal monthly instalments of RM123,000 each. However owing to slow business, actual payments made were as follows:

Date of payment	Amount (RM)
15-Jan-2017	123,000
15-May-2017	123,000
15-Aug-2017	123,000
15-Nov-2017	123,000
Total payments made	**492,000**

Continued...

Required:

For the purposes of section 38 of the Goods and Services Tax Act 2014 (as amended) indicate the GST adjustments that Hannah Enterprise must make in respect of the input tax credit and output tax payable to the RMC for the relevant taxable period in respect of the payments made to the supplier.

(5 marks)

[Total marks: 20]

QUESTION 5 (20 marks)

(a) Explain briefly what you understand by 'Capital Goods Adjustments', and why is this adjustment necessary?

(4 marks)

(b) The following business transactions took place between Mary Enterprise (the supplier) and Lamb Enterprise (the recipient):

(i) Transaction 1: Mary Enterprise supplied goods to Lamb Enterprise and issued a tax invoice for RM17,855 (inclusive of GST) on 15 April 2016. Upon receipt of the supply Lamb Enterprise discovered that 20% of the goods are sub-standard. The recipient was willing to accept the goods if the supplier could issue a credit note for a sum of RM3,571 (inclusive of GST). This was agreed to by Mary Enterprise and a credit note was issued on 30 April 2016. Lamb Enterprise settled the balance of RM14,284 inclusive of the GST, on 10 June 2016.

(ii) Transaction 2: Mary Enterprise delivered a supply of goods to Lamb Enterprise on 26 April 2016, and issued a tax invoice for RM23,800 (inclusive of GST) on a 60 day credit terms but offered a cash discount of 2% if payment is made within 15 days of the supply. Lamb managed to make the full payment (after the discount), on 5 May 2016 and Mary Enterprise issued a credit note, (inclusive of GST) on 10 May 2016.

Both the entities are GST registered taxable persons on a monthly taxable period.

Required:

(i) With reference to the Goods and Services Tax Act 2014 (as amended) and the related regulations, indicate the value of the supply and acquisition, the output tax and the input tax credit for the relevant taxable period in respect of the supplier Mary Enterprise and the recipient, Lamb Enterprise.

(6 marks)

(ii) Briefly explain the salient features of the adjustment arising from the issue of the credit notes.

(2 marks)

Continued ...

(c) HR Development Sdn Bhd ('the company') is a mixed supplier. It acquired a machine for RM5.3 million. The supplier raised a tax invoice in May 2016 for RM5.3 million (inclusive of GST RM300,000). The company has estimated that its residual input tax recovery rate for the five (5) years would be as follows:

Interval	**Annual residual input tax credit recovery rate (%)**
First	65
Second	70
Third	45
Fourth	85
Fifth	75

Required:

With reference to the Goods and Services Tax Act 2014 (as amended) and Regulation 58-59 of the Goods and Services Tax Regulations 2014 P.U.(A) 190/2014, make the necessary capital goods adjustment indicating the following:

(i) the respective year in relation to the interval applicable;
(1 marks)

(ii) the input tax credit that could be claimed for the first interval; and
(1 marks)

(iii) the GST adjustment to be made in the second interval onwards
(5 marks)

(d) A Malaysian GST registered legal firm that does business with overseas clients bought a medium sized yacht (a pleasure boat) for entertaining its clients, incurring RM8,000 input tax on the acquisition in 2016. The yacht is also used by the firm's partners for leisure trips sometimes.

Required;

Explain whether the legal firm can claim the input tax credit on the purchase of the yacht.

(1 mark)
[Total marks: 20]

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